ConsumersUnion

POLICY & ACTION FROM CONSUMER REPORTS

Income Reporting
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How to Report Your Income When You Apply for Financial Help from Your Health Insurance Marketplace for 2016

Summary

You can get financial help to lower the cost of your monthly health insurance. These FAQs will explain what you need to know when applying for financial help for health insurance. They will help you understand how to report your income.

The health care law (known as the Affordable Care Act, ACA, or "Obamacare") offers special financial assistance to help people pay for insurance. To get the help, you have to buy insurance on your state's Health Insurance Marketplace. For 2016, tax credits are available to single people who make up to $47,080 a year. A family of four can make up to $97,000 a year and get tax credits.[1] You can use these tax credits several ways to reduce the cost of your health insurance. For people whose income is lower, you can also get cost-sharing reductions (lower co-payments, co-insurance or deductibles). A single person can make up to $29,425 a year and get lower cost-sharing *and* tax credits. A family of four can make up to $60,625 a year and get cost-sharing reductions in addition to tax credits.

To figure out if you qualify for financial assistance for 2016, your Health Insurance Marketplace needs to know your household income. The Marketplace needs to know how much you expect your tax household's income will be for the year you will have the insurance. (For Medicaid, they will look at your *current monthly* income.) That's an easy question to answer if you have a steady income from a job or other regular, predictable income. But it is not so easy

[1] In Alaska and Hawaii, you can get tax credits if you make more money. If you live in one of these states, check with your Marketplace to learn more about eligibility at the higher income levels

if you have unsteady or hard-to-predict income from self-employment, sales commissions, seasonal work, or another form of income.

How does the tax credit work?

The Health Premium Tax Credit is a way to lower the cost of health insurance when you buy it through the Marketplace. Because it is a tax credit, it lowers the total amount of tax you owe the IRS. Or, if you don't owe any tax, it increases your refund. You can use the tax credit even if you did not make enough to file taxes last year.

There are two ways to use the tax credit. You can get it "in advance" and use it to lower your monthly health premiums right away. Or, you can wait until tax time and get the full amount as a refund when you file your taxes. Keep in mind, if you use it "in advance" you should call your Health Insurance Marketplace to report any changes in income or family size during the year.

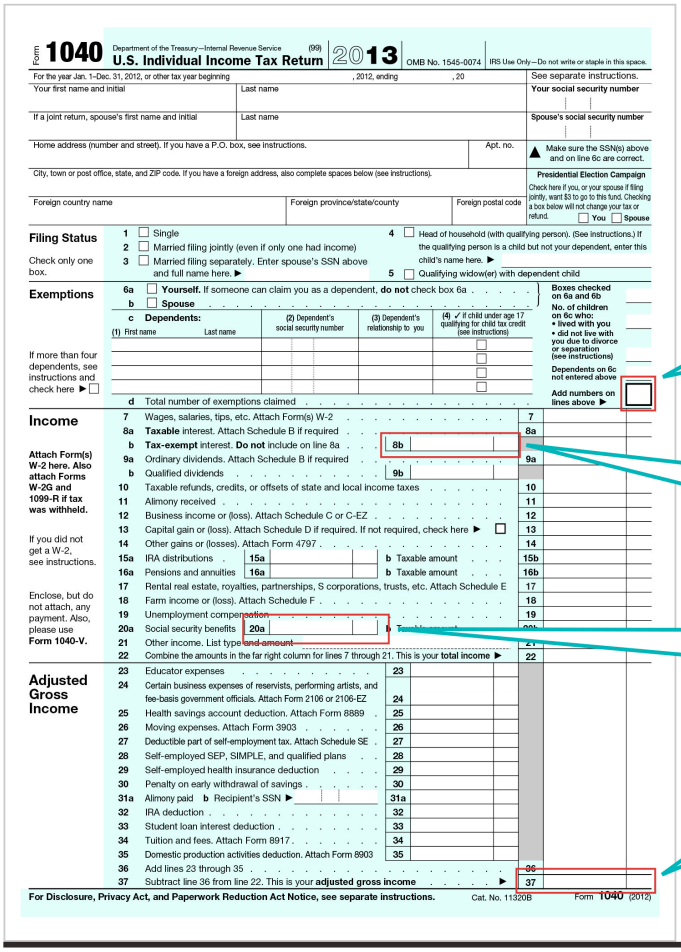
What counts as income?

The ACA counts income based on something called your “Modified Adjusted Gross Income” (MAGI). MAGI is your taxable income, the income you report on your tax return. For most people, MAGI will be the adjusted gross income (AGI) that is on your federal tax return. You can find your adjusted gross income in the following places:

- Tax Form 1040 - Line 37
- Tax Form 1040-EZ - Line 4
- Tax Form 1040A - Line 21

All Social Security benefits count towards MAGI, not just the taxable amount. Here’s an annotated version of Form 1040 for 2013 that we marked up to show what goes into MAGI.

Exhibit 1:



Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** 2013 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 See separate instructions.

Your first name and initial | Last name | Your social security number

If a joint return, spouse's first name and initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). | Presidential Election Campaign: Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Foreign country name | Foreign province/state/county | Foreign postal code

Filing Status Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions
6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**
Boxes checked on 6a and 6b
c **Dependents:** (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐
No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
d Total number of exemptions claimed
Add numbers on lines above ▶

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a W-2, see instructions.
Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 — 7
8a **Taxable** interest. Attach Schedule B if required — 8a
b **Tax-exempt** interest. **Do not** include on line 8a — 8b
9a Ordinary dividends. Attach Schedule B if required — 9a
b Qualified dividends — 9b
10 Taxable refunds, credits, or offsets of state and local income taxes — 10
11 Alimony received — 11
12 Business income or (loss). Attach Schedule C or C-EZ — 12
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ — 13
14 Other gains or (losses). Attach Form 4797 — 14
15a IRA distributions — 15a — b Taxable amount — 15b
16a Pensions and annuities — 16a — b Taxable amount — 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E — 17
18 Farm income or (loss). Attach Schedule F — 18
19 Unemployment compensation — 19
20a Social security benefits — 20a — b Taxable amount — 20b
21 Other income. List type and amount — 21
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ — 22

Adjusted Gross Income
23 Educator expenses — 23
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ — 24
25 Health savings account deduction. Attach Form 8889 — 25
26 Moving expenses. Attach Form 3903 — 26
27 Deductible part of self-employment tax. Attach Schedule SE — 27
28 Self-employed SEP, SIMPLE, and qualified plans — 28
29 Self-employed health insurance deduction — 29
30 Penalty on early withdrawal of savings — 30
31a Alimony paid b Recipient's SSN ▶ — 31a
32 IRA deduction — 32
33 Student loan interest deduction — 33
34 Tuition and fees. Attach Form 8917 — 34
35 Domestic production activities deduction. Attach Form 8903 — 35
36 Add lines 23 through 35 — 36
37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ — 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2012)

Form 1040

Your eligibility for help with premiums and out-of-pocket costs depends on the size of your "household" and your "modified adjusted gross income" or MAGI.

Both of these have specific definitions based on your tax returns. We've highlighted the important parts.

Your "household" consists of everyone for whom an exemption is claimed on an individual's tax return. That includes the "head of household," spouse, dependent children, and other family members who live with you and you support financially. It does not include roommates who file their own tax returns, or a domestic partner to whom you're not married.

If you report income here, you must add it to your Adjusted Gross Income (line 37) to get your MAGI.

All Social Security benefits count towards MAGI, not just the taxable amount.

For most households, MAGI will be the "adjusted gross income" reported on Line 37 of your Form 1040 tax return. On Form 1040EZ, "adjusted gross income" is reported on line 4.

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Your Guide to the New Health Law

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http://consumerreports.org/content/dam/cro/news_articles/health/PDFs/CRO_Health_2013_1040_Edited_Annotated_10-14.pdf

If you don't have a previous tax return to use or you think you may be eligible for Medicaid, this worksheet can help you learn more about MAGI:
http://laborcenter.berkeley.edu/healthcare/MAGI_summary13.pdf

Do I report everybody's income or just my own?

Just like when you complete your income taxes, for the tax credits you report everyone in your tax household's income. That means you report your income, your spouse's income and the income of any dependents who are on your tax return.

Do I report my past income, current income or future income?

The income that you report should be for the year that you want health insurance. If you apply in November 2015 for insurance to start in January 2016, you will need to estimate your future income for 2016.

If you are applying during the same year you will have insurance (for example, applying in January 2016 for insurance that would start in February 2016), you would report your expected income for 2016.

How do I estimate my income for a year that has not ended yet?

If your income is from a regular paycheck, it will be easy to estimate your income even if the year hasn't ended. But if your income is unpredictable, you may not know your exact income because it has not come in yet. You might have to guess. Think about what jobs you expect to work this year and how much you think each job might pay.

If you filed a federal tax return last year, you can use it as a starting point. Look for the Adjusted Gross Income you reported. Then add or subtract, depending on how you think your income might change. Which jobs will be different this year? Which jobs will be the same? Don't forget to deduct self-employment expenses. Reminder, on page 2 we listed the line from each tax form where you can find the information for reporting income.

What happens if I guess my income wrong?

It is important to be as accurate as you can when estimating your income. If you get advance tax credits and guess your income too low on your application, you may get too much tax credit. If you do, then you might have to pay all or part of the advance tax credits back when you file your taxes. The amount you owe will depend on what your final income turns out to be.

But, if you guessed your income too high on your application, the advance tax credit may be less than what you should get. If that's the case, you will get the rest of the tax credit when you file your taxes. You may even get a tax refund.

One way to avoid owing all or a part of your tax credit later is to only ask for part of it in advance. You can still lower your monthly premiums that way. And you will get the rest of your tax credit when you file your taxes. You can also take none of the credit in advance. Then you would get the whole tax credit when you file your taxes.

How will the Marketplace check my income?

The Marketplace will check the income you reported on your application and compare it to what the IRS has on file for you. This is called "income verification." The Marketplace does this by electronically asking the Internal Revenue Service (IRS) database and other databases if what you reported is the same as what they have on file. The IRS will not share your personal tax data with your Marketplace. They will just tell the Marketplace if the income you reported does or does not match what they have on file for you.

The IRS information comes from your latest income tax return. When you apply for coverage in 2016, that's probably going to be your 2014 tax return. If your income has changed since then, your reported income may not match the data on file.

- If your estimated income is ***the same or more*** than what is on file, the Marketplace will consider it to be verified.

- If your estimated income is ***lower*** than what is on file or if the Marketplace cannot find any electronic data on your income (for example, if you have not filed a recent tax return), the Marketplace may ask you to provide more information to prove that your guess is accurate. You will have 90 days to get this done. You will get health insurance and temporary tax credits while you are waiting. If you don't prove your income is what you say it is, your tax credits may end or change to match the information in the electronic files.

What documents will I need to prove my income?

If the Marketplace can't verify your income, you might have to give them documents to show them what you say is likely true. Many kinds of proof are acceptable.

If you have…	Acceptable forms of proof might include…
Wages (income an employer pays you)	• Most recent W-2 • A recent pay stub • A letter from your employer • A copy of a check paid to you as wages • Signed time sheets

Self-employment income	• Most recent 1099-MISC • Most recent quarterly or year-to-date profit and loss statement • Bookkeeping records or a self-prepared ledger that shows income and deductible expenses • Bank statement showing deposits and expenses from your business
Social Security	• Form SSA-1099 Social Security benefits statement • Any correspondence from the Social Security Administration that shows your benefit amount, including a Cost of Living Adjustment letter
Other income	• A statement of your unemployment compensation benefits • Bank or investment fund statement • A lease agreement that shows income from rental property • Proof that you qualify for Food Stamps, TANF or Medicaid • Veterans Benefit statement

If you cannot get any of the listed documents, do your best to give the Marketplace something that shows that you expect to make the amount of money you put on your application. Your Marketplace will give you instructions on how to send in your documents. Follow them carefully so your paperwork doesn't get lost.

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